the loss is not recognized for rate-making purposes. The Director reviews non-pilotage activities to determine if any adversely impact the provision of pilotage service, and may make rate-making adjustments or take other steps to ensure the provision of pilotage service.

(6) Medical, pension, and other benefits paid to pilots, or for the benefit of pilots, by the Association are treated as pilot compensation. The amount recognized for each of these benefits is the cost of these benefits in the most recent union contract for first mates on Great Lakes vessels. Any expenses in excess of this amount are not recognized for ratemaking purposes.

(7) Expense items that are not reported to the Director by the Association are not considered by the Director in ratemaking calculations.

(8) Expenses are appropriate and allowable if they are reasonable, and directly related to pilotage. Each Association must substantiate its expenses, including legal expenses. In general, the following are not recognized as reasonable expenses for ratemaking purposes:

(i) Undocumented expenses;

(ii) Expenses for lobbying;

(iii) Expenses for personal matters;

(iv) Expenses that are not commensurate with the work performed; and

(v) Any other expenses not directly related to pilotage.

(9) In any Great Lakes pilotage district where revenues and expenses from Canadian pilots are commingled with revenues and expenses from U.S. pilots, Canadian revenues and expenses are not included in the U.S. calculations for setting pilotage rates.

(10) Reasonable profit sharing for non-pilot employees of pilot associations will be allowed as an expense for ratemaking purposes. Profit sharing that benefits pilots will be treated as part of pilot compensation.

[60 FR 18370, Apr. 11, 1995. Redesignated at 61 FR 32655, June 25, 1996, and further redesignated by USCG–1998–3976, 63 FR 35139, June 29, 1998]

§ 404.10 Ratemaking procedures and guidelines.

(a) Appendix A to this part is a description of the types of analyses performed and the methodology followed in the development of a base pilotage rate. Ratemaking calculations in appendix A of this part are made using the definitions and formulas contained in appendix B of this part. Appendix C of this part is a description of the methodology followed in the development of annual reviews to base pilotage rates. Pilotage rates actually implemented may vary from the results of the calculations in appendices A, B and C of this part, because of agreements with Canada requiring identical rates, or because of other circumstances to be determined by the Director. Additional analysis may also be performed as circumstances require. The guidelines contained in § 404.05 are applied in the steps identified in appendix A to this part.

(b) A separate ratemaking calculation is made for each of the following U.S. pilotage areas:

Area 1—the St. Lawrence River;
Area 2—Lake Ontario;
Area 4—Lake Erie;
Area 5—the navigable waters from South East Shoal to Port Huron, MI;
Area 6—Lakes Huron and Michigan;
Area 7—the St. Mary's River; and
Area 8—Lake Superior.

[60 FR 18370, Apr. 11, 1995. Redesignated and amended at 61 FR 32655, June 25, 1996, and further redesignated and amended by USCG–1998–3976, 63 FR 35139, 35140, June 29, 1998]

APPENDIX A TO PART 404—RATEMAKING ANALYSES AND METHODOLOGY

Step 1: Projection of Operating Expenses

(1) The Director projects the amount of vessel traffic annually. Based upon that projection, the Director forecasts the amount of fair and reasonable operating expenses that pilotage rates should recover. This consists of the following phases:

(a) Submission of financial information from each Association;

(b) determination of recognizable expenses;

(c) adjustment for inflation or deflation; and

(d) final projection of operating expenses. Each of these phases is detailed below.

Step 1.A—Submission of Financial Information

(1) Each Association is responsible for providing detailed financial information to the Director, in accordance with part 403 of this chapter.